

## ROUTING AND RECORD SHEET

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SUBJECT: (Optional)

CIA's Comments on GAO's Draft Report Proposing  
a Single Federal Retirement System

FROM:

J. F. Blake  
Deputy Director for Administration  
7D24, Hqs.

EXTENSION

NO.

DATE

21 JUN 1978

GAO

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S  
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Comptroller  
4E06, Hqs.

2. Office of General Counsel  
7D07, Hqs.

3. Office of Legislative Counsel  
6C19, Hqs.

4.

5. Deputy Director of Central  
Intelligence  
7E12, Hqs.

6. Director of Central  
Intelligence  
7E12, Hqs.

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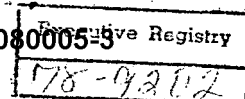
The General Accounting Office (GAO) conducted a study (begun in March 1977) of the feasibility of merging all 51 separate Federal retirement systems into a single retirement system for all Federal civilian and military employees. The study was requested by three committees in the House:

- Armed Service
- Banking and Currency
- Post Office and Civil Service

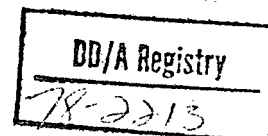
On 24 May 1978, GAO sent us, for comment, a copy of the report it intends to submit to the Congress. The report proposes to merge 38 separate retirement systems, including CIARDS. Our comments are reflected briefly in the attached letter for the DCI's signature and at length in Attachment A. The other two attachments are back-up material for Attachment A.

/s/ John F. Blake

John F. Blake



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



INTERNATIONAL DIVISION

MAY 24 1978

The Honorable Stansfield Turner  
Central Intelligence Agency  
Langley, Virginia 20505

Attention: Office of Legislative Counsel

Dear Admiral Turner:

Enclosed for your review and comments are five copies of our proposed report on the desirability of establishing a single retirement system for all Federal personnel. The report covers 38 Federal and Federally related retirement programs and was requested by the Chairman, House Committee on Armed Services; the Chairman, House Committee on Banking, Currency, and Housing; and the Chairman, Subcommittee on Retirement and Employee Benefits, House Committee on Post Office and Civil Service.

Because the report discusses many different retirement programs and, in its entirety, is quite lengthy, the enclosed copies include only those sections which relate to the Central Intelligence Agency Retirement and Disability System.

Your attention is directed to the restrictions stated on the cover of the draft report concerning its use and the need to prevent publication or other improper disclosure of its contents. Also, the draft and all copies belong, and must be returned on demand, to GAO.

We must receive your comments within 30 days of the date of this letter in order to incorporate them, in whole or in part, in our final report. They may be sent to Mr. H. L. Krieger, Director, Federal Personnel and Compensation Division, GAO, Room 4001, 441 G Street, NW, Washington, DC 20548. If you or your representatives desire any further information regarding the report, please contact Mr. Robert E. Shelton, Project Director, at 275-5743.

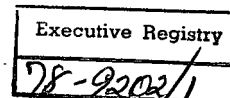
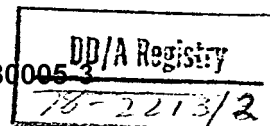
Sincerely yours,

*J. K. Fasick*  
J. K. Fasick  
Director

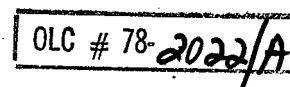
The Deputy Director  
Central Intelligence Agency

Approved For Release 2005/03/14 : CIA-RDP81M00980R001500080005-3

Washington, D. C. 20505



22 JUN 1978



Mr. H. L. Krieger, Director  
Federal Personnel and Compensation Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Krieger:

This is in response to Mr. J. K. Fasick's letter of 24 May 1978 requesting our comments on your proposed report as to the desirability of establishing a single retirement system for all Federal personnel.

We do not concur in the conclusion that the CIA Retirement and Disability System (CIARDS) should be included in a single consolidated Federal system. We consider that the unique security and management factors require that the CIARDS should remain under Agency control as a separate statutory system.

The justification for maintaining CIARDS as a separate system was spelled out in the Agency's detailed response of 9 March 1977 to Mr. Shelton's earlier (11 November 1976) letter which initiated GAO's review. A copy of the response we made at that time is enclosed as Attachment C. Unfortunately, your draft report does not include most of the rationale supporting our position. As a result, recipients of the report within the Congress would be given a one-sided view supporting your conclusion for one retirement system with little insight into the Agency's position to allow an objective appraisal of the proposal as it concerns CIARDS.

To present a balanced report, we feel it only fair and necessary that the detailed rationale supporting CIA's position be included in the section of your report on CIARDS. Accompanying this letter as Attachment A are our comments on the draft of your proposed report. For your further information is Attachment B, a statement made by the Acting Deputy Director of Central Intelligence on 13 October 1977 during hearings on CIARDS held by the House Permanent Select Committee on Intelligence. We believe you will find in these two attachments important information to supplement the information we gave to Mr. Shelton in March 1977.

If, notwithstanding the views expressed in the attached materials, your final report recommends the merger of CIARDS in a single Federal

retirement system, we request that the report reflect the Agency's rationale for CIARDS as a separate system and the Agency's stand in opposition to any other arrangement.

A representative of our Office of Personnel is prepared to meet again with Mr. Shelton directly to discuss appropriate revisions of the report to satisfy our concerns.

Sincerely,

/s/John F. Blake

John F. Blake  
Acting Deputy Director

Enclosures

CIA's Comments on GAO's Draft Report  
Proposing a Single Federal Retirement System

The comments expressed herein are submitted at the invitation of Mr. J. K. Fasick, extended in his letter of 24 May 1978 which transmitted a draft of the GAO report concerning the desirability of a single Federal retirement system. These comments are directed to presenting opposition of the CIA to the elimination of the CIA Retirement and Disability System (CIARDS) and to the correction of errors of substance in the draft report.

At the beginning of Chapter 4 of the draft GAO report, it is stated that Federal retirement systems have evolved without policy guidance, and elsewhere the statement is made that they developed piecemeal. In the second paragraph of Chapter I it is reported that a retirement system is basically a program for providing a pension to retired employees for life, and elsewhere the report indicates that whatever reasons were accepted originally for establishing separate systems are not valid today. CIA wishes to register views in opposition to these observations as they might be intended to apply to the CIA Retirement and Disability System (CIARDS).

The Agency cannot agree that CIARDS was developed without policy guidance; certainly the legislative history of the System indicates that the Congress acted consciously and in full appreciation of what the Agency represented as the need for a separate retirement system for the management of a pool of manpower unique in the United States Government; unique as to duties, conditions of work, utilization and as regards security factors not found elsewhere in Federal employment. The two statutory criteria governing the use of CIARDS certainly reflect that this System was not intended for normal Government employment. For further realization of the fact that CIARDS was developed only after very close and conscious policy guidance, one need only to consider that the statute creating CIARDS required that the internal Agency regulations governing the practical administration of the System be cleared with the ranking members of both the House and Senate Committees and, further, that a quota was set for the number of retirements that could be possible under the System. These very real expressions of purpose and control do not describe an absence of policy guidance, they are emphatic evidence that CIARDS in fact enjoyed such direction. Policy guidance of CIARDS is again evidenced by the requirement (established in 1976) that an annual report on the administration of CIARDS be presented to our committee in the House. Such reports have been submitted for two consecutive years; these reports were prepared by an outside (non-CIA) consultant. In October 1977, a subcommittee of the House Permanent Select Committee on Intelligence conducted a full-scale review of CIARDS, requiring oral testimony and written replies to several scores of questions. Thus, policy guidance is being continued by the Congress.

The Agency takes exception with the view that, in the case of CIARDS, a retirement system is "basically a program for providing a pension to retired employees." The representations made by the Agency to the Congress in support of establishing CIARDS show that the Agency wanted CIARDS as a management tool for the administration of the operational cadre, to keep it vigorous and resilient, and as a secure means for administering retirement benefits for persons who cannot admit to any affiliation with CIA, or even with the United States Government. It was only after the statement of these primary purposes of CIARDS that there followed the requirement for a rate of annuity that would recompense members of the operational cadre for the unique services which they rendered their country. These representations, in evidence in the legislative history, were most recently expressed on 13 October 1977 when the Acting Deputy Director of Central Intelligence testified before a subcommittee of the House Permanent Select Committee on Intelligence. Rather than repeat those views here, there is enclosed a copy (Attachment B) of the statement of the Acting Deputy Director on that date. We are confident that this statement will be highly informative and a valuable supplement to the information furnished to Mr. Robert Shelton in our letter of 9 March 1977.

As can be seen from reading the statement of 13 October 1977, as well as of the material furnished in 1976 to Mr. Shelton, the primacy of CIARDS as a management tool for the effective administration of the operational cadre is emphasized. Both documents point out the unique structures of career services through which personnel administration is effected within CIA and the fact that CIARDS is intimately intermeshed into the management context of CIA personnel administration. CIARDS is a vital element in the Agency's management context, and to divorce the two would cause irreparable damage. Further comment on the matter of the intermeshing of a retirement system with the management context in which it is to play an effective role might be useful.

In 1965, just as the Agency was implementing CIARDS within the Agency, a White House Cabinet Committee was appointed to examine all Federal retirement systems. That Committee devoted some of its time to considering the merger of other separate systems with the Civil Service Retirement System which, in its view, would contribute to better and more economical administration, maximum across-the-board consistency and better coordination with other fringe benefits (the same aims as reflected in the present proposed GAO report). While all these seemed to the Committee to constitute a laudable goal, the Committee did, however, recognize that the management contexts within which retirement systems operate do differ. Hence, the Committee acknowledged the vastly different organizational structures of the military services and The Foreign Service and concluded that:

"MSR (Military Services Retirement) and FSR (Foreign Service Retirement) are management oriented to a greater degree than is CSR (Civil Service Retirement). Both are closely coordinated with their respective personnel systems to facilitate the retention and promotion of the most able

and to separate or retire the least able as well as those no longer able to fully meet requirements of the service. The close coordination between these retirement systems and their respective personnel systems is a basic reason for their continued separate existence."

CIA believes that CIARDS is even more unique among Federal retirement systems than are the systems for the military and The Foreign Service. We know of no compelling considerations that have changed the validity of the views expressed by the Cabinet Committee; we know of no developments in the intervening years that would have negated the reasoned conclusions reached by the Cabinet Committee then.

The last sentence of page v of the draft GAO report states that "...we found no justification for granting preferential benefits to certain groups merely because of the type of work performed;" and on page vi the penultimate sentence reflects the understanding that CIARDS covers "positions." It seems that this language might reflect an insufficient understanding of CIARDS and the context in which it operates. CIARDS does not cover "positions," and the benefits are not premised merely on the position occupied. CIARDS is more dynamic than that; it covers "certain employees" rather than "positions" and is more related to the whole context of the careers and services of these "certain employees." These are employees who make themselves available for service any place in the world as the needs of the Agency dictate; all of them serve under "covers" that usually require them to perform two jobs, their CIA job and the cover job and, at the same time, protect the integrity of their cover and the organization that provides the cover; these are pressing responsibilities. Often their service involves major disruption to personal convenience and family life; and the employees are always targets for opposition intelligence services and oftentimes the objects of hostile action from opposition services and terrorist groups. The strains caused by prolonged periods of such service often diminish the vigor and resiliency of many of these employees; this result, and eventual erosion of their cover, ~~serve~~ <sup>serve</sup> to limit their usefulness to the Agency. The slightly higher annuity rate and the earlier age for voluntary retirement have been established as humane recompense for employees who have thus served their country. CIA holds strongly to the view that it is the totality of the nature of working careers of the operational cadre that argues for CIARDS rather than just the specific work they perform.

The second paragraph of Chapter 2 of your report contains these two sentences: "Because retirement is an integral part of employee compensation, differing benefit provisions mean differing rates of compensation for employees who may be performing similar or equivalent functions and who are otherwise paid the same. In our opinion, the same provisions should apply to all Federal personnel unless there are compelling reasons to the contrary, and this criterion was used as the basis for our evaluation." To this, we must respond that the Congress obviously appreciated that certain employees of CIA served careers that were quite different from normal Government employment; these employees are performing in careers that are not "similar or

equivalent" to normal Government employment. The conclusion of the Congress found expression in these two statutory criteria for coverage under CIARDS:

1. in support of Agency activities abroad hazardous to life or health, or
2. so specialized because of security requirements as to be clearly distinguishable from normal Government employment.

We submit, therefore, that the benefits structure is premised on the recognition of the uniqueness of service of the type covered by these two criteria. These criteria define rather conclusively that the certain employees are not performing functions that are "similar or equivalent" to those performed by other Federal civilian personnel, and we believe this fact offers you "compelling reasons" for accepting the uniqueness of CIARDS.

We should like to make the observation at this point that there are very definite criteria to be satisfied for eligibility for participation in CIARDS. The statutory criteria just cited have been implemented by four internal administrative criteria which are included in the Agency regulation on CIARDS. The regulation, and of course the internal criteria, have been reviewed by the Congress. For your information, a sheet showing these criteria is attached to Attachment B, the statement made by the Acting Deputy Director to the Congressional Committee on 13 October 1977. While, as you observe in your report, criteria for participation in Federal retirement systems are lacking, you will appreciate that this is not the case with CIARDS.

While CIA is sympathetic to GAO's interest in promoting efficiency by proposing a single retirement system, we feel compelled to observe that our experience leads us to conclude that efficiency in the Agency's operational activities is promoted in no small measure by an esprit de corps that has developed in the operational cadre and that the special identification that participation in CIARDS carries is an important ingredient in promoting such esprit. CIARDS has been in existence for 13 years, and over that time the distinction of being approved for membership in the System has increasingly become regarded as a special form of recognition. In the materials sent to Mr. Shelton in March 1977, we related the opinion of the Deputy Director for Operations in regard to the idea of eliminating CIARDS as a separate system. We repeat his comments: "The effect of this move on morale within the DDO would be disastrous and, taken with other difficulties would, in my opinion, seriously degrade the calibre of the morale of the people we could hire and/or retain in the Operations Directorate." We most emphatically reaffirm those observations today. Although morale is an intangible factor we prize it highly and propose to promote and maintain it, and we regard CIARDS as an extremely valuable means for achieving that end. Morale is an extremely important ingredient in the careers of the operational cadre and, in the last analysis, in the accomplishment of national intelligence objectives.



On page 156 of the proposed GAO report it is stated that the Agency viewed the loss of administrative responsibilities for covered employees (resulting from merger of CIARDS with other retirement systems) as an infringement of the statutory responsibility of the Director to protect intelligence sources and methods. We think that statement does not describe accurately our concern. We refer you to pages 7, 12, and 13 of the statement made on 13 October 1977 by the Acting Deputy Director to the Congressional subcommittee. The passages on those pages provide a good description of what our interest is in this important area, and make clear that we are concerned with considerations much more vitally important than can be conveyed by the description "administrative responsibilities."

We hope that these remarks have highlighted that CIARDS is a special retirement system designed to fit uniquely with the Agency management structure and the security practices designed for the protection of intelligence sources and methods. The record discloses that a great deal of policy guidance was directed to the formulation of CIARDS and to its continued operation. It covers a group of employees whose service is unique. Congress best described such service by defining it as being clearly distinguishable from normal Government employment. The System is principally a management tool to ensure that the cadre covered by it is maintained at levels of vigor, resiliency and adaptability best able to pursue the nation's foreign intelligence missions. Lastly, CIARDS as a management tool permits the Agency to carry out securely those retirement functions which are so sensitive that they must fall within the Director's statutory authority for the protection of intelligence sources and methods.

The proposed GAO report includes the Agency's Voluntary Investment Plan (VIP) in the treatment of retirement systems. Although technically the VIP is a pension plan (approved by the Internal Revenue Service), it is not practically a retirement system. No retirements of any type are effected under the VIP. There are no Agency contributions to the Plan and there is no Government funding involved, and no actuarial valuations are made. VIP is simply only a vehicle for enabling Agency employees voluntarily to invest over the long term with the prospect of building a supplement to their eventual retirement annuities. Such employees actually will retire under CIARDS or the Civil Service System. We suggest, therefore, that you may wish to eliminate the VIP from the proposed report.

There are certain specific errors in the proposed GAO report:

--The chart showing Congressional responsibilities for Federal retirement systems should reflect that the House Permanent Select Committee on Intelligence has (in the House) exclusive oversight of CIARDS. The presentation in regard to the Senate is accurate.

--On page 155 it is stated that "According to CIA officials the limitation (quota) has never caused a problem and is expected to be removed by 1978 or 1979." That the Agency was able to operate within the quotas established for each quota period speaks better for Agency management than the quotation suggests. We know of no Agency

officials who made the quote attributed; we do not know what our oversight committee will do when the present quota period ends on 30 June 1979.

--On page 156 is the statement that "CIA officials agreed that any conclusions reached on The Foreign Service retirement system would generally be applicable to the CIA system." We know of no basis for such statement and wish to disavow it.

--Page 17 of Appendix II needs to be revised.

(a) We suggest a preamble that establishes that to be eligible for retirement under CIARDS, an employee must have completed at least 5 years of service of the type described by the two statutory criteria; viz, hazardous to health and life or clearly distinguishable from normal Government employment, in addition to satisfying requirements for age and length of service.

(b) Change "optional" retirement to "voluntary" retirement.

(c) Under mandatory retirement eliminate the mention of 5 years service; the suggested preamble will cover that fact.

(d) Eliminate "Discontinued Service;" we do not have that in CIARDS.

(e) Add a heading "Involuntary Retirement" showing eligibility at age 50 with 20 years service or at any age with 25 years service.

(f) Under "Deferred Annuity" eliminate reference to 5 years of service; the preamble will cover that fact.

--Page 11 of Appendix III (Disability Retirement). The last sentence should specify the "difference between the employee's age at time of retirement and age 60" (our emphasis) rather than "age 20" as shown.

--Chapter 3 of your report (Management of Federal Retirement Programs) shows the costs and man years necessary to administer CIARDS and specifies a total of \$286,000 and 14 man years. The letter to Mr. Shelton in March 1977 specified that the number of man years devoted exclusively to CIARDS was 9 and the cost was \$159,602 for their salaries, \$15,000 for actuarial support and \$10,000 for computer support, for a total dollar figure of \$194,602. Our letter disclosed that although 5 other man years were devoted to CIARDS, such commitment was not exclusively the result of the existence of CIARDS but was, instead, a function of the total number of personnel in CIA and not a function of CIARDS. We stated that, "In other words, if the Agency did not

have CIARDS and all employees were under Civil Service, the part-time effort these employees (i.e., the 5) now direct toward CIARDS retirement matters would be devoted to Civil Service retirement matters." We believe, therefore, that this section of your report should be revised to reflect that CIARDS necessitates a total cost of \$194,602 and the commitment of 9 man years.

Except for the views expressed above, we are in general agreement on some other of your proposals. Thus, we would concur in standard methods of financing and funding and standard methodology for actuarial valuations.

The Agency's principal concern, however, is that CIARDS be continued as a separate retirement system, administered from within CIA, for the reasons stated.

Mr. Chairman:

I want to thank you for this opportunity to describe the "CIA Retirement Act of 1964 for Certain Employees" and its importance to the Agency. During the course of my discussion, I shall address myself to the questions raised in the Committee's letter of 30 September 1977; namely, justification for the Agency's need for a separate retirement system, the necessity to maintain a mandatory retirement age for participants in this system, and our views concerning a mandatory retirement age for those employees covered by the Civil Service Retirement Act.

The CIA Retirement and Disability System---we usually refer to it by the acronym CIARDS---is a separate retirement system designed for the Agency's personnel who perform hazardous and specialized duties peculiar to CIA's conduct of intelligence operations abroad. In my discussion, I shall be referring to that group as the operational cadre.

The need for a separate retirement program to cover the operational cadre was identified by Agency managers in the early 1950's. They were concerned that the Civil Service System, which then covered all CIA employees, was not designed for the management context within which the operational cadre operates, nor could that System provide for the unique security requirements necessary for the

protection of the operational cadre. Agency officials decided, therefore, to seek legislation to cover this particular group of Agency employees.

In support of the proposal for CIARDS, Agency officials identified the size of the operational cadre as about 25 to 30 percent of the Agency's strength; described the dangerous and arduous services performed by these employees; related that such services required continuing resiliency, vigor, adaptability and stamina; stated that the physical, mental and psychological abilities of such employees were found to diminish over their careers; pointed out that when employees were identified by opposition services or were otherwise publicly exposed, their continued usefulness in foreign areas was lessened; explained that the employees in the operational cadre had to be of ages to "blend" into cover slots overseas; that provision had to be made for the attraction and intake of new and younger officers, unidentified to the opposition, to replace those whose usefulness had lessened; that an annuity rate slightly higher than that of Civil Service should provide for those employees whose careers were necessarily shorter than those found elsewhere in the civilian service; and, finally, that the proposed CIARDS be administered wholly by the Agency in order to provide maximum security to those employees and

retirees whose affiliation with the Agency or even with the U.S. Government must not be revealed outside CIA.

During the years 1962, 1963 and 1964, Agency officials testified at hearings before the House and Senate Armed Services Committees to work out the details of the proposed retirement system. The final product was P.L. 88-643 of 13 October 1964, the CIA Retirement and Disability Act.

What the Congress enacted covered only those Agency employees serving in the operational cadre---these are the "Certain Employees" specified in the title of the Act. The Congress established two statutory criteria to govern the designation of participants in the System. Thus, only these employees could become participants.

- those whose duties are hazardous to life or health,

- those whose duties are so specialized because of security requirements as to be clearly distinguishable from normal government employment.

In addition to thus limiting the application of the System to certain types of employment, the Congress provided a quota on the number of retirements that could be effected under the System in order to ensure the proper observance of the criteria during the formative years in which the Agency would be phasing the System into its management structure. The quota was initially set at 400 retirements

for each of the first two 5-year periods of administration. Subsequently, in 1970 the quota for the second 5-year period was increased to 800 and later in 1973, increased again to 2,100 to accommodate large-scale personnel reductions from the cadre. At the same time, a quota of 1,500 was established for the 5-year period ending 30 June 1979.

The two statutory criteria for participation in the System were purposely worded in broad fashion. The Congress chose not to include in a public document any details of the types of qualifying service performed by the "Certain Employees," although many examples had been given to the Committees in executive session. The Agency's internal regulations on the System, which treated qualifying service in more detail, were reviewed and approved by the Armed Services Committees in 1965, as called for by the legislation.

It will be useful in the present review to describe in some detail the considerations which the 88th Congress weighed in arriving at its judgment to enact CIARDS in 1964:

-- Those eligible for participation in CIARDS are employees engaged in the conduct and support of intelligence operations overseas, and comprise about 25 to 30 percent of Agency personnel strength.

-- Most of these employees serve under cover, a requirement which adds a dimension to their employment not found in normal government employment.

This requirement calls for the exercise of stringent tradecraft to protect the cover, especially in areas of hostile intelligence and internal security services.

-- Many employees under cover must perform two jobs, the cover job and the Agency job -- usually with the inconvenience of long and strenuous hours.

-- There is the danger of injury, death or capture resulting from actions by hostile elements.

-- These employees are frequently assigned to countries or areas not of their choosing, often with great disruption to personal and family affairs.

-- Such service places a great demand for resiliency, adaptability, and vigor in these employees.



-- Prolonged service overseas increases the risk of identification to hostile intelligence and internal security services, thus greatly diminishing the utility of employees so identified and their assignability to foreign posts.

-- The operational cadre needs to maintain a continual flow-through of new employees who are not identified to opposition services and who enjoy high levels of resiliency, adaptability and vigor.

-- To assist in promoting continual flow-through of new employees to replace employees of diminished utility, two features of CIARDS were designed to limit the careers of employees in the operational cadre: A statutory mandatory retirement age was set, and a limit of 70% of high-three was imposed on annuities. These two factors contribute to retirements earlier than observed in the normal civilian service and contribute also to the vitality and vigor of the cadre and to the maintenance of its general utility.

-- An annuity formula at a rate somewhat higher than that for normal civilian Federal employees is necessary in order to recompense members of the operational cadre for the hazardous and unique nature of their service.

-- Security factors dictate that CIARDS must be wholly administered from within the Agency. By the very nature of their participation in the System, participants in CIARDS are under varying types of covers, and knowledge of these cannot be disclosed. Retirement contributions to the CIARDS Fund are handled securely within the Agency, regardless of the types of cover. Even upon retirement, certain employees must remain under cover and cannot reveal any affiliation with CIA or, in some cases, even the U.S. Government. The Agency has secure methods for making salary payments to such employees and annuity payments to annuitants and survivors without identifying such affiliation. The need to accomplish the secure administration of such CIARDS retirees, as well as the current employees under cover, is so important and the means to do so are so sensitive that they should be protected under the Director's statutory responsibility for protecting intelligence sources and methods.

-- Some hazardous and specialized Agency

activities within the United States would be included under the statutory criteria; for example, handling of explosives for demolitions training or handling foreign clandestine agents while they are in the United States.

Now, Mr. Chairman, I would like to discuss CIARDS in the context of the Agency's personnel management system.

In the years prior to the enactment of CIARDS, the Agency developed a system of career services through which personnel management in the Agency is carried on. Agency manpower is organized into five major career services, each one concerned with a major functional responsibility. The managers of these career services are responsible for maintaining the manpower capabilities of their work force, for planning for the long-range demands for skills to cope with anticipated operational and professional requirements, for planning the training and development of members of the work force, and for annual evaluation of them and identification of ineffective or marginal performances. In addition to these responsibilities, the managers of the operational cadre have another special and essential requirement, that of managed attrition within the cadre for the reasons previously specified. Here, planned attrition aided by a mandatory retirement age is essential. In this respect, CIARDS has proven to be a very useful tool.

-- The benchmark of the mandatory age enables the managers better to predict and plan retirements and to plan recruiting and training efforts accordingly.

-- Involuntary retirements have been used at times to reduce personnel surpluses or to separate employees whose skills are no longer needed, but the higher annuity benefit received under CIARDS recognizes the hazardous or unique services and minimizes the hardship of such separations.

-- Voluntary retirement accounts for the majority of retirements under CIARDS. Participants retire voluntarily for a variety of reasons: realizing that they face a mandatory retirement, many leave at earlier ages to seek new careers while they are young enough to be competitive in the labor market; many perceive that their utility is diminishing due to erosion of cover or growing obsolescence of skills; others recognize their motivational exhaustion due to the rigors of such service.

Mandatory retirement and the liberalized benefits promoting voluntary retirement under CIARDS have contributed immensely to the career service objectives of keeping the operational cadre resilient, adaptable and vigorous; of permitting a flow-through of new employees who can fit

cover requirements and who are not identified to opposition services; of effecting drain-offs at the upper grades, thus improving opportunities for career development and promotions of younger officers; and of meeting reduced personnel ceilings.

Mr. Chairman, for 13 years CIARDS has demonstrated its usefulness to the Agency as a tool of management and as an incentive to employees individually. CIARDS has been woven intimately into the management framework of the operational cadre and its supporting elements, and it has contributed mightily to several important management objectives. This:

- Enabled the Agency to keep the operational cadre vigorous, vital, resilient and adaptable.

- Has had a positive impact on the morale of its members since they take pride in their identification with CIARDS as reflective of the Government's recognition of the special value of their services.

- Contributed to separations that have enabled us to meet reduced personnel ceilings or the phase-out of obsolescent skills.

- Minimized greatly the problem of arranging suitable and viable cover.

- Enhanced the opportunities for career development and upward progression of the junior officers.

-- Has given the Agency a secure system for the administration of retirement matters for those participants who cannot be acknowledged as having, or having had, any affiliation with the Agency or, in some cases, even with the United States Government.

Mr. Chairman, we have provided to your Committee two letters and a number of tables which we feel will be useful to the Committee in assessing the justification for CIARDS. Most of this material is classified.

I should like, with your permission, to mention a passage from the letter from Director Colby to Mr. James Lynn, former Director of OMB, in April 1975. On page 8, former Director John McCone is quoted from his statement made to the Congress in 1965 when he was testifying for the enactment of CIARDS:

"I consider the enactment of the CIARDS Bill essential to the effective performance of our mission."

Mr. McCone was fully knowledgeable of the difficulties facing the Agency in attempting to manage, and manage securely, the operational cadre under the Civil Service System. He was aware that as early as 1953, only six years after the Agency was established, Agency managers were at work on a proposal for a separate retirement system that would satisfy the requirements for the management of so unique a group and for the secure administration of such system. Mr. McCone's

independent judgment was that a separate, securely-administered system was a necessity.

If anything, the CIARD System has become more essential to our Agency because the hazards to which our people are subjected have increased. We are now in a period of international terrorism, and Agency personnel overseas are a prime target. Their vulnerability, Mr. Chairman, has increased substantially as a result of an ongoing campaign of public exposure of Agency personnel in the media and by a variety of groups hostile to CIA.

Mr. Chairman, my remarks would not be complete without comment on the consequences that would follow the abolishment of CIARDS as a separate retirement system administered wholly by the Agency or the elimination of the mandatory retirement age from CIARDS.

If CIARDS were abolished entirely as a separate retirement system, two results would occur:

-- There would be an utter crippling of the Agency's ability to administerly securely retirement matters of the participants and retirees who are under cover. The need for secure methods for such protection is a matter of great concern to managers of the operational cadre and its activities. It was a matter with which the managers continually

struggled in the earlier years when participants of the operational cadre were all under the Civil Service System. In the 13 years in which we have used CIARDS, the means of administering retirement matters of the operational cadre have become more effective. These means have become more sophisticated in order to meet the increased capabilities of opposition intelligence services to identify our employees. Such arrangements are so sensitive that they fall within the statutory responsibility of the Director for protecting intelligence sources and methods. Elimination of CIARDS would require the Civil Service Commission to replace the tested procedures, controls and mechanisms currently under the purview of the Director of Central Intelligence. Substitutes -- even if acceptable ones could be developed, and I doubt they could -- would not be under the control of the Director. The result would impair his statutory responsibility to protect intelligence sources and methods.



-- The abolishment of CIARDS would have a devastating effect on the morale of the employees who comprise the operational cadre. The esprit de corps that has developed in that group over the past 13 years, and passed down to its new members, is an impressive asset to the Agency and to the national intelligence effort. While the Agency is fortunate to enjoy a high degree of spirit, professionalism and dedication to duty among all its employees, this is even more apparent among the employees who comprise the operational cadre. This derives from the fact that participation in CIARDS is Government recognition of their having performed hazardous or unique types of service. This esprit de corps is pervasive, and enables us not only to attract the type of new recruits we want but also to stimulate the efforts of the new officers early in their careers.

If mandatory retirement age were removed from CIARDS, we would lose a vital feature from the management system of the operational cadre. It would deny to the managers an important benchmark that is used for projecting and predicting retirements. It would remove a key factor which influences many voluntary retirements at earlier ages. This, in turn,

would lead to an aging of the operational cadre; the diminution of vigor, adaptability and resiliency among its ranks; and increased difficulty in arranging cover. It would, therefore, become necessary to resort to involuntary retirement to prevent such developments. The use of involuntary retirement to solve these problems would have the deleterious effect of dampening the enthusiasm of younger officers and of discouraging the recruitment of new officers. The effect on the morale of present officers would be disabling.

Mr. Chairman, in closing, I should like to touch on the matter of accounting of our stewardship of this unique program entrusted to us by the Congress 13 years ago. The legislative history of CIARDS reveals that the Congress wrote the Act purposefully in general terms in order not to include sensitive details in a public document. Such sensitive details were, of course, discussed at length during executive sessions. The Congress required that the classified, internal Agency regulations established for the administration of CIARDS be cleared by the ranking members of the committees and, as already stated, this was done in 1965. It was because of the generality of the statutory criteria, and the need to develop experience in the administration of the System, that the Congress initially

established a quota on retirements and required clearance of the Agency's internal regulations. In 1976, the House Committee on Armed Services requested a report on how the Agency had administered CIARDS since its inception, with special attention to the matter of designating participants. Mr. Chairman, we have provided your Committee with copies of two reports by Mr. Andrew Ruddock who made a completely independent study of CIARDS for submission to the House Armed Services Committee. One was submitted in 1976 and the second one in September 1977. Mr. Ruddock is, as you know, the former Director of the Bureau of Retirement, Insurance and Occupational Health of the Civil Service Commission.

I would like to quote from Mr. Ruddock's reports. In 1976 he stated:

"I found the Agency's exercise of the discretion to designate CIARDS participants to be of consistently high quality, with due concern that determinations of what service is qualifying conform to the law, the regulations, and the intent of Congress as the Agency understands that intent."

In 1977, he stated:

"Discretion to designate employees for participation in the Central Intelligence Agency Retirement and Disability System has been exercised very carefully

during the past year, and determinations of what service is qualifying have been made consistently in conformity with the law, the regulations and the intent of Congress."

Mr. Chairman, we feel we have discharged well our responsibility for this special retirement system which is of vital importance to the management of the operational cadre of the CIA.

Finally and briefly, Mr. Chairman, I would like to address the question of a mandatory retirement age for Agency employees covered by the Civil Service Retirement Act.

The recent overwhelming vote by the House of Representatives to abolish a mandatory retirement age in the Civil Service Retirement System was the occasion for us to re-examine our policy on this matter in the Agency. We have determined that the factors that argue for a mandatory age for the operational cadre, as explained earlier, are no longer present in regard to other employees. We have, therefore, decided that we have no representations to offer in regard to a mandatory retirement age for Agency employees under the Civil Service Retirement Act and have changed that policy.

Mr. Chairman, this concludes my statement, and I will be happy to answer any questions. Thank you.

TABLE NO. 7

The Agency criteria for qualifying service in CIARDS, implementing the two statutory criteria contained in the Act, are as follows:

"Qualifying service" means performance of duty as an Agency employee

- (a) when assigned either PCS or TDY to any place outside the 50 states and the District of Columbia; or
- (b) which requires a substantial risk to the life or health of the employee; or
- (c) which requires the continued practice of tradecraft under conditions of most stringent security for the purpose of maintaining personal cover in support of Agency activities; or
- (d) which, when retirement is imminent, is adjudged to have been so sensitive or so specialized that security requirements forbid disclosure of this duty and that, as a result, it is unlikely the employee will be able to obtain employment for which he is otherwise qualified.

9 MAR 1977

Mr. Robert E. Shelton  
Project Director  
Federal Personnel and  
Compensation Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Shelton:

This is in reply to your letter of 11 November 1976 requesting information on the CIA Retirement and Disability System (CIARDS). The information presented here is keyed to like-numbered paragraphs in your letter.

1. All career employees of CIA may be eligible if they are citizens of the United States, are at least 25 years of age and less than age 60, and have completed 60 months of qualifying service. Qualifying service is defined as performance of duty:

- when assigned either PCS or TDY to any place outside of the 50 United States, or

- which requires a substantial risk to the life or health of the employee, or

- which requires the continued practice of trade-craft under conditions of most stringent security for the purpose of maintaining personal cover in support of Agency activities, or

- which, when retirement is imminent, is adjudged to have been so sensitive or so specialized that security requirements forbid disclosure of this duty and that, as a result, it is unlikely the employee will be able to obtain employment for which he is otherwise qualified.

2. CIARDS was enacted into law (P. L. 28-645) on 13 October 1964. CIARDS was needed to give CIA a management tool that the Agency could employ to keep its operational cadre (those whose duties were hazardous to health or safety or were clearly distinguishable from normal Government

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employment) young, vigorous, resilient and adaptable. An operational cadre with such characteristics is absolutely essential to the Agency, but the nature of certain Agency assignments results in such characteristics being found in diminishing degrees after age 50 in employees who were subjected to arduous demands. The obligation to serve anywhere at anytime, unhealthful locations, dangerous assignments, stresses and strains of irregular work hours and disruption of family and private life all contribute to a lessening of interest and enthusiasm for continued arduous duty. Such motivational exhaustion would diminish the effectiveness of the operational cadre if means were not available to keep that cadre young and vital. It was to the Agency's vital interest, therefore, to develop a retirement system that would permit retirement at early ages of those who earned such retirement.

Apart from a concern for the effects of erosion of effectiveness of its operational cadre, the Agency had other interests in a system that would permit managed attrition. Major changes in direction, orientation or extent of operational effort may result in there being excess to our needs certain employees whose skills are thereby rendered obsolescent. Such situation requires encouraged if not forced attrition so that the Agency may proceed to use its personnel authorizations for new initiatives. The task of seeking other employment is, for those Agency employees who are thus separated, sometimes aggravated by not being able to describe freely their qualifications to a prospective employer.

CIARDS was designed to put into the hands of Agency management, a tool that could ensure achievement of the objectives enumerated above. CIARDS is thus a retirement system intimately meshed with management needs and objective to a degree not found in the Civil Service System; it permits the Agency to manage attrition of employees in The System and to minimize subjecting management to innumerable and unpredictable personal retirement decisions. In order to lessen the adverse effects of managed attrition and yet preserve our ability to recruit and retain high calibre personnel, we must make reasonable provisions for the futures of those individuals who are retired before full-time careers of 30 years or more and whose careers are thus foreshortened in the Agency's interests.

b. The Civil Service System was considered inadequate because it could not permit Agency management to use retirements as one of the methods for keeping the operational cadre (and supporting elements) young, vital and flexible. Mandatory retirement in the Civil Service System was age 70, and the earliest optional retirement was at age 60 with 30 years of service. In July 1966, optional retirement was liberalized to age 60 with 20 years' service or age 55 with 30 years' service (mandatory retirement age remained age 70). Agency management wanted a system that would reduce the mandatory retirement age by 10 years, that would permit voluntary retirements at age 50 with 20 years of service and which would permit a slightly better rate of annuity. The Civil Service System was designed principally for Government workers in the domestic U. S. or its possessions, and although it does provide for service that is hazardous to health or safety, is not equipped to cope with the unique security requirements of CIA for employees whose duties are clearly distinguishable from normal Government employment. (See reference to disadvantage described in paragraph 5.b. following.)

c. The principal reason for the provision for early retirement was to permit retirement, at ages earlier than possible under the Civil Service System, of those employees whose careers were involved in the types of duties previously described. The ultimate purpose was to enable Agency management thereby to ensure that the cadre of employees engaged in such duties would be kept young, resilient, vigorous and adaptable. The success of these aims is apparent from the average ages of retirees under CIARDS for the past ten years.

FY-67	age 55.1
FY-68	age 54.3
FY-69	age 54.4
FY-70	age 54.9
FY-71	age 53.2
FY-72	age 52.7
FY-73	age 53.3
FY-74	age 51.7
FY-75	age 51.8
FY-76	age 51.2

d. The CIARDS has been amended six times by public law. Except for two provisions peculiar to CIA, these amendments enacted into CIARDS features that had been incorporated by the Congress into the Civil Service System for the civilian work force of the Government. This was



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under CIARDS did not fall behind in the coverage of  
benefits Congress had enacted for civilian Federal  
employees generally. The two provisions peculiar to  
CIARDS were:

(1) To obtain increase in the quota on  
retirements for the period 1 July 1969 - 30 June  
1974 and a new quota for the period 1 July 1974 -  
30 June 1979, and

(2) to incorporate into CIARDS by Executive  
Order rather than by legislation changes in pro-  
visions in the Civil Service System for which  
there are comparable provisions in CIARDS.

e. It is an established fact that some degree of  
better (perhaps not preferential) benefits are authorized  
for certain civilian Federal employees whose duties are  
noticeably different from normal civilian Federal employ-  
ment and who are employed within an organizational context  
in which management has a vital interest in keeping the  
work force young and vital and uses managed retirement  
as one tool for that purpose. Foreign Service Officers,  
fire fighters and law enforcement officers are three such  
examples that come readily to mind. Retirement systems  
incorporating these two principal features are designed  
primarily for the benefit of the organizations they  
serve; the slightly better benefits are a form of com-  
pensation for those employees whose careers are fore-  
shortened in the interest of larger objectives of manage-  
ment and the organization.

CIARDS coverage, with its additional benefits, is  
awarded to those few Agency employees who perform what  
the Congress saw as duties that (1) are hazardous to  
health and safety and (2) are clearly distinguishable  
from normal Government employment and whose careers are  
affected more by management objectives than are those of  
the general run of civilian Federal employees. The Agency  
has long held, and Congress by its actions has supported,  
the belief that in the interests of a viable national  
intelligence effort, it is important to ensure the main-  
tenance of a young and vital cadre; and to permit the  
early retirement, in order to seek other careers, of  
those officers who, by diminished capabilities and  
motivational exhaustion no longer measure up to these  
stringent requirements.

3. When a CIARDS participant resigns and transfers  
without a break in service to another Agency under the  
Civil Service System, his retirement contributions are  
automatically transferred from CIARDS to the Civil Service

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Civil Service System qualified for CIARDS, his funds are transferred automatically from Civil Service to CIARDS. If there is a break in service, the employee involved must apply for a refund of contributions and make a redeposit of them to the retirement system into which he is entering.

a. P. L. 88-643 and P. L. 91-626

b. Agency experience is that about 336 Agency employees transfer from Civil Service to CIARDS each year, and about 53 each year transfer in the opposite direction.

c. Under the provisions of Section 252c(1) and (2) of the CIARDS Act of 1964 (P. L. 88-643), employee contributions and Government contributions are transferred by the losing system to the gaining system.

4. When a CIARDS annuitant is reemployed by the Government under the Civil Service retirement system, the amount of annuity is offset from salary. Such reemployment does not qualify the CIARDS retiree for a supplemental annuity under CIARDS and he may not, according to the Director of BRIOH at the Civil Service Commission, qualify for benefits under the Civil Service System (This ruling is now being restudied in the Civil Service Commission). When a CIARDS annuitant is recalled to service in CIARDS (not reemployed) his annuity ceases, he goes on full salary and his annuity benefits are computed anew when he again retires.

a. The basic CIARDS law does not provide for the payment of a supplemental annuity. The ineligibility of a CIARDS annuitant to participate in the Civil Service System is based on a ruling by the Director of BRIOH at the CSC.

b. A reemployed annuitant of another retirement system has no coverage under CIARDS.

5. a. Nine (9) complete man years are devoted full time to the administration of CIARDS. This totals \$159,602. These figures represent 4 man years by 5 employees of the Office of Finance and 5 man years by 5 employees of the Office of Personnel. These employees are engaged in activities which would not be performed if CIARDS was not in existence.

The Office of Personnel has 10 other employees who devote part of their time to CIARDS retirement. It must be emphasized, however, that the activities of these

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employees in CIA and not a function of CIARDS exclusively. In other words, if the Agency did not have CIARDS and all employees were under Civil Service, the part-time effort these employees now direct toward CIARDS retirement matters would be devoted to Civil Service retirement matters. These 10 employees are not employed solely because of CIARDS; they are employed because of the total retirement activity in CIA. For your information, however, the part-time that these 10 devote to CIARDS amounts to 5 man-years at an annual cost of \$101,571. We believe that for your purposes, however, you will want to concern yourself with the manpower and costs related solely to the existence of CIARDS - in this case, \$159,602.

b. The nine man-years cited in paragraph a. are not committed to duties other than those related to CIARDS; the positions involved exist exclusively because of CIARDS. The 10 employees who are engaged part-time (5 man-years) on CIARDS devote the remainder of their time to Civil Service and other retirement matters.

c. The computer cost for financial support to CIARDS, other than actuarial support, is \$15,000 per year. The cost of computer support for actuarial valuation is estimated at \$10,000 per year.

d. There would be definite advantages and definite disadvantages if administration of the system were consolidated under one Federal employee retirement system. The advantages would be in relieving the Agency of the responsibility for operating a separate retirement system, including responsibility for payrolling annuities, preparing appropriations estimates, investment of funds in U. S. securities, actuarial projections and updating of the benefits structure. An overwhelming disadvantage would be infringement on the statutory responsibility of the Director of Central Intelligence for the protection of intelligence sources and methods. We cannot, in this unclassified letter, go into detailed explanation but it is enough to say that there are some aspects of retirement under CIARDS that are peculiar to this Agency and which must be administered only within the system of controls and discipline flowing from the DCI's statutory responsibility.

6. a. Prior to recent enactment of P. L. 94-522, the system was funded exclusively from (1) employee/employer contributions (currently 7% of basic salary by each as required by Section 211A of the Act), (2) transfers from other retirement systems representing employee and matching employer contributions for service prior to date of participation in the Agency system and service with U. S. Government cover organizations by integrated Agency employees

included in the system, and (3) income on investments in U.S. Government securities.

b. Public Law 94-522 authorized annual appropriations for amounts necessary to:

(1) Finance, in 30 equal annual installments, the unfunded liability created by any statute which authorizes new or liberalized benefits, extensions of coverage or increases in salary.

(2) Meet the normal cost of each year which is not met by employee/employer contributions.

(3) Equal interest on unfunded liability and to reimburse the Fund for the estimated portion of annuities for the year attributable to military service credit (at 70% level for 1977; 80% for 1978; 90% for 1979 and 100% for 1980 and for each Fiscal Year thereafter).

c. The system does have an unfunded liability, caused by the fact that Fund resources, prior to enactment of P. L. 94-522, have been limited principally to employee contributions and matching employer contributions beginning July 1956. These contributions have never been adequate to fund the benefits payable under the Act. Future appropriations by Congress, in keeping with the appropriate authorities contained in P. L. 94-522 will substantially slow further growth in unfunded liability.

7. The current normal cost of the system is treated as classified information because the Agency annual payroll for current employee/participants could be computed by using the normal cost and the amount budgeted for the short-fall between normal cost and employee/employer contributions.

a. Normal cost for CIARDS is defined as the total level percentage of anticipated career salary for all future new entrants required to provide the benefits expected to be paid less the present value of all benefits resulting from service under other retirement systems and less the cost of credit allowance for military service.

b. It was assumed that general salary increases would be at the annual rate of 4% and that cost of living increases in annuities would be at an annual rate of 4%.

Actual valuations have been made at five-year intervals consistent with a stipulation in the Act requiring such valuations at intervals of five years. These valuations have been made by the Office of Government Financing, Office of the Secretary, Department of the Treasury, and have not been subjected to independent reviews except that most recent valuation was used by the analysts in the Congressional Budget Office in their preparation of the estimated cost of the recently enacted P. L. 94-522.

d. We have no comparative data base for making a determination as to whether there has been any cost growth in the system in terms of normal cost.

I should like to emphasize that the CIARDS was enacted into public law to be extended only to those "certain" employees of CIA whose careers are involved in duties that are hazardous to health and safety or are clearly distinguishable from normal Government employment. (I have attached a copy of the basic Act for your perusal.) CIARDS is thus extended to only a portion of CIA personnel strength; the vast majority of the Agency's employees are under the Civil Service System. To ensure that the Agency would administer CIARDS very carefully, Congress set a numerical limit (a quota) on the number of retirements that may be permitted under the System. CIARDS is the only Federal retirement system that has a limit or quota on retirements.

A completely objective study of how the Agency has administered CIARDS was performed in October 1976 by a highly qualified and respected "outsider," Mr. Andrew Ruddock, former (retired) Director of the Bureau of Retirement at the Civil Service Commission. This report was submitted to the Subcommittee on Investigations of the House Armed Services Committee. Similar reports are to be submitted to the Subcommittee annually hereafter, in October.

We are sympathetic to your interest in examining the possibilities of promoting efficiency by merging various Federal retirement systems. Speaking only for CIARDS, however, we must take the position that, because of the statutory responsibility of the Director of Central Intelligence to protect intelligence sources and methods, the dictates of security compel us to oppose the consolidation of CIARDS with other systems into a single organization/system. Allied with this stand is the fact that CIARDS

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is intimately meshed with Agency management and the career service concept which prevails within CIA.

In order to assist you further to understand the management and security structure into which CIARDS is interwoven in the Agency, I have taken the liberty of attaching a sterilized copy of a letter which our former Director, Mr. William E. Colby, addressed to the Director of the Office of Management and Budget in April 1975. Mr. Colby's letter was written in response to a query from OMB quite similar to your letter to which we are here responding. I hope that the information provided by both letters is useful to you in your task.

Sincerely,  
(Signed) F. W. M. Janney

F. W. M. Janney  
Director of Personnel